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1 RYLEY CARLOCK & APPLEWHITE One North Central Avenue, Suite 1200 2

Phoenix, Arizona 85004-4417 Telephone: 602/258-7701 Telecopier: 602/257-9582

Michele L. Van Ouathem – 019185

4 Attorneys for Verrado Community Association, Inc. and

DMB White Tank, LLC

BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS** 7

GARY PIERCE, Chairman SANDRA D. KENNEDY

PAUL NEWMAN 9 **BOB STUMP** 

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**BRENDA BURNS** 

11 IN THE MATTER OF THE APPLICATION

OF ARIZONA-AMERICAN WATER ARIZONA-AMERICAN, AN ARIZONA

CORPORATION, FOR A 13

DETERMINATION OF THE CURRENT

FAIR VALUE OF ITS UTILITY PLANT

AND PROPERTY AND FOR INCREASES

IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY

ITS AGUA FRIA WATER DISTRICT.

HAVASU WATER DISTRICT, AND MOHAVE WATER DISTRICT

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Docket No. W-01303A-10-0448

Verrado Community Association, Inc.'s and DMB White Tank, LLC's Witness Testimony Summaries

Verrado Community Association, Inc. and DMB White Tank, LLC, through their undersigned counsel, hereby provide notice of filing the attached witness testimony summaries pursuant to the June 15, 2011 Procedural Order Modifying Testimony Filing Schedule.

DATED this 10th of August, 2011.

Arizona Corporation Commission

DOCKETED

AUG 1 0 2011

DOCKETED BY

RYLEY CARLOCK & APPLEWHITE

By Michele Van Quathem

One North Central Avenue, Suite 1200 Phoenix, Arizona 85004-4417

Attorneys for Verrado Community

Association, Inc. and DMB White Tank,

LLC

mvanquathem@rcalaw.com

1	ORIGINAL and 13 copies of the foregoing filed this 10th day of August, 2011, with:
2	Docket Control
3	Arizona Corporation Commission 1200 W. Washington
5	Phoenix, Arizona 85007
6	FIVE copies of the foregoing mailed this 10 <sup>th</sup> day of August, 2011, to:
7	Commissioners' Assistants
8	Commissioners' Wing Arizona Corporation Commission 1200 W. Washington St.
9	Phoenix, Arizona 85007
10	COPY of the foregoing mailed this
11	10th day of August, 2011, to:
12	Steve Olea, Director Utilities Division
13	Arizona Corporation Commission 1200 W. Washington St.
14	Phoenix, Arizona 85007
15	Thomas H. Campbell Michael T. Hallam
16	Lewis and Roca LLP 40 N. Central Ave., Suite 1900
17	Phoenix, AZ 85004
18	Greg Patterson Water Utility Association of Arizona 916 W. Adams, Suite 3
19	Phoenix, Arizona 85007
20	Ting libilian
21	Tina Jibilian Hearing Division
22	Arizona Corporation Commission 1200 W. Washington St.
23	Phoenix, Arizona 85007
24	Curtis S. Ekmark Ekmark & Ekmark, L.L.C.
25	6720 N. Scottsdale Rd., Suite 261 Scottsdale, Arizona 85253
26	Attorneys for Sun City Grand Community Association
27	By An Short
	By That Saland

Janice Alward, Chief Counsel Legal Division Arizona Corporation Commission 1200 W. Washington St. Phoenix, Arizona 85007 Michelle Wood, Counsel Residential Utility Consumer Office 1110 W. Washington St., Suite 220 Phoenix, Arizona 85007

Joan S. Burke Law Office of Joan S. Burke 1650 N. First Ave. Phoenix, Arizona 85003 Attorney for Corte Bella Golf Club Kenneth Hewitt Melinda Gulick is the President of Verrado Community Association, Inc. (the "<u>Association</u>"). Ms. Gulick describes the Association's concerns regarding Arizona-American Water Company's proposed large residential and potable irrigation water rate increases, each of which, if granted, will significantly impact Verrado residents.

Verrado is a new community of homes and businesses located near the White Tank Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000 homes spanning 8,800 acres. Currently, there are roughly 1813 homes occupied in the community, approximately nine businesses and four schools. All of Verrado's water and sewer service is provided by Arizona-American Water Company.

The Association is a non-profit corporation that serves approximately 5892 current Verrado residents through a variety of services and community and recreational activities. The Association is seriously concerned about the impact of a large water rate increase on its current residents. Water rates were just increased approximately 26% in Arizona-American Water Company's December 2009 rate case (see Decision No. 71410). This concern is aggravated by a current proposal to increase the Agua Fria Wastewater District residential sewer rates up to 139.7% through a potential deconsolidation of the Anthem/Agua Fria Wastewater District in case number WS-01303A-09-0343.

Verrado's residents include many people who are on fixed or reduced incomes that have already been significantly impacted by adverse economic conditions in the Phoenix area in recent years. The Association opposes any unfair or untimely increases in water and sewer rates, especially during these trying economic times, and requests that the Commission carefully examine and consider in making its decision on this case all of the consumer comments and proposed remedies entered in this docket.

Verrado residents will also be impacted by increases to the Association's overall costs. The Association manages various physical facilities and landscaping within the commonly-owned areas throughout Verrado. Common areas are watered with potable water provided by Arizona-American Water Company. Effluent is not yet available at locations and in sufficiently reliable quantities to water landscaping for the Verrado Community Association.

The Association currently pays a rate of \$2.7280 per 1,000 gallons for delivery of potable irrigation water. In the current version of the schedules, the Company's proposed commodity rate appears to be a flat \$4.988622 for all meter sizes, plus a new base charge that varies by meter size. The proposed change in the commodity rate alone would increase costs for water 83% for the Association, equaling an estimated overall increase for test year usage (July 1, 2009-June 30, 2010) of \$392,000. This is an enormous and unreasonable increase, and cannot

be sufficiently mitigated by additional conservation. Ms. Gulick describes the steps the Association has already taken to conserve water.

The Association agrees with the flat commodity rate design proposed by Arizona-American Water Company for the new irrigation rates. Adding tiers to irrigation rates would not encourage further conservation by the Association because the Association already has economic incentive to conserve water.

## **Summary of Kent Simer's Testimony**

Kent Simer is a rate consultant for K. R. Saline & Associates, PLC ("KRSA"), which provides ongoing consulting and engineering services for numerous irrigation and electrical districts, municipal utilities and tribal utilities located throughout the Southwest. On behalf of Verrado Community Association, Inc., Mr. Simer addresses a number of issues.

Rate Shock. Mr. Simer testifies that the proposed rate has significant rate shock implications stemming from the placement of the White Tanks Regional Water Treatment Plant into the rate base. Without a sufficient customer base, the increase in revenue requirements will result in an 82.89% rate increase for the average residential customer in the Agua Fria Water District.

Mr. Simer testifies that Arizona-American's original stated primary purpose for constructing the White Tanks Plant was to provide additional capacity for customer growth. Consistent with that purpose, Arizona-American proposed to use water hook-up fees to finance the construction of the plant as an equitable solution to the need for additional capacity. Existing customers do not benefit from this plant as they were already adequately served by an existing well system. There is a significant over investment in facilities to serve the existing customer base and at any given time a significant portion of the total plant is not used or needed. Mr. Simer testifies that the construction of the White Tanks Plant was built on the premise that rates would not be impacted, and that plan should not change. He proposes that the plant be funded primarily through hook-up fees as they become available.

In addition, to mitigate the impact of the requested rate increase, Mr. Simer testifies that a phase-in of the rate increase would be appropriate. A phase-in would require Arizona-American to bear more of the cost risk for the White Tanks Plant, and would provide more time for recovery in the housing industry, potentially spreading the rate increase across additional customers.

Declining Use Adjustment. Arizona-American is proposing to adopt a declining residential usage mechanism to account for under collections due to conservation efforts made by the utility. Mr. Simer testifies on the likely cause of declining residential usage and whether it constitutes the need for the requested adjustment. Mr. Simer testifies that the proposed declining usage adjustment should be rejected by the Commission because there is insufficient proof that conservation caused the declining usage and insufficient indication the declining usage will continue when economic conditions improve. In addition, the declining use is not of sufficient magnitude to warrant extraordinary rate treatment.

<u>Depreciation Rates.</u> Mr. Simer testifies against the request to change depreciation rates at this time. The adoption of new depreciation rates at this time would only increase the severity of the rate shock impact on the customers. Insufficient evidence has been provided that would demonstrate the need for new depreciation rates at this time. Rejecting the changes now will help to address rate shock.

Infrastructure System Replacement Surcharge. Mr. Simer testifies that the proposed

<u>Infrastructure System Replacement Surcharge</u>. Mr. Simer testifies that the proposed infrastructure system replacement surcharge ("ISRS") should not be accepted by the Commission because (1) there is nothing extraordinary that would warrant the extraordinary ratemaking device and (2) the surcharge would allow Arizona-American to temporarily circumvent the Commission's responsibility to review plant placed into rate base, allowing Arizona-American to earn a greater return than what might be allowed.

<u>Capital Structure</u>. Mr. Simer testifies that short term debt should be included in the capital structure, but that updated balances should be used. Mr. Simer recommends the Commission adopt the capital structure as currently outlined in Rebuttal Exhibit TMB-1 of 60.55% debt and 39.45% equity.

<u>Fuel and Power Expense</u>. Arizona-American's proposed updated Fuel and Power Expense should be adjusted to remove the projected average bill increase of 6.6% anticipated to result from an APS rate application filed on June 1, 2011 in Docket No. E-01345A-11-0224. This change is not known and measurable since that rate application has not yet been decided by the Commission.

## **Summary of David Nilsen's Testimony**

David Nilsen is Director of Development for DMB Associates, and is responsible for development activities in the Verrado master planned community and the operation of subsidiary entities relating to Verrado, including DMB White Tank, LLC (collectively, "DMB").

Mr. Nilsen testifies that DMB pays two separate rates for water in Arizona-American Water Company's Agua Fria Water District -- a non-potable Central Arizona Project ("CAP") rate, and potable irrigation rates.

DMB also purchases effluent generated by Arizona-American Water Company's Verrado wastewater treatment plant for use watering turf and landscaping within the Raven Golf Club at Verrado. In Arizona-American's recent Agua Fria Wastewater District rate case decision number 72047, the Commission approved a new rate for the effluent for the Wastewater District. Arizona-American's Application for the Water District in this case also included a proposed effluent rate. Arizona-American said that it will be revising its Application in this case to remove the proposed effluent rate. Mr. Nilsen testifies that DMB agrees the effluent rate should remain in the Wastewater District's tariff only, and should remain at the amount fixed in Decision 72047 for all the reasons cited in that case.